Actionable Ideas for the Power to Trade Smarter
What’s Driving the trend towards Alternative Risk Premia and Systematic Investing?

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Mr. Azzouz: The transition from active to passive investing is an ongoing industry shift driven by large and sophisticated institutional investors. This trend results partly from subdued performance coming for active managers as well as lower fees offered by passive alternatives. While active management offers potential alpha at a given cost, passive management is cheaper but introduces potential crowding and illiquidity. Systematic investing shares characteristics with both active and passive management. It may provide a cost efficient alternative which could enable institutional investors to 1) harvest Alternative Risk Premia, 2) improve diversification or 3) protect their portfolios, through transparent and liquid solutions.

Thanks to financial and technological advancements, we are now able to offer innovative strategies which account for the stage of the business cycle, the economic outlook but also the institutional investor’s objectives or concerns while leveraging the strengths of Bank of America.

The theoretical foundations for these strategies are not new, and have histories deeply rooted in market theory introduced by the likes of Benjamin Graham and later Fama French with concepts like Value, Momentum, Carry. What’s new are the newly developed techniques used to capture them. These techniques stem from cutting edge financial engineering, groundbreaking research, and advanced trading capabilities.

Bank of America has been challenging the status quo in Systematic Investing for 15 years, and is at the forefront of this disruptive shift. With over one hundred team members involved in the research, design and trading of Systematic Strategies, Bank of America offers unique and innovative systematic solutions to harvest Alternative Risk Premia, to provide systematic hedging overlays and smart beta solutions, in equities and cross asset classes. The Systematic Strategies leverage a cutting edge platform using advanced statistics and machine learning to deliver to financial institutions.

For other actionable insights, please see the rest of our Trader Insights series or contact your sales rep